

Message Text

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44

ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 SP-02 USIA-15 AID-05

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

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FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 9108

INFO AMEMBASSY BONN

OECD PARIS 4402

USEC BRUSSELS 3133

USMISSION GENEVA

UNCLAS VIENNA 5869

EO 11652: NA

TAGS: EFIN, AU

SUBJECT: DE FACTO REVALUATION OF AUSTRIAN SCHILLING VIS-A-VIS GERMAN
MARK

DEPT PASS TREASURY AND FRB

REF: VIENNA 2350

1. SUMMARY: AUSTRIAN NATIONAL BANK DECIDED ON TUESDAY TO ALLOW SCH-

ILLING TO FLOAT VIS-A-VIS GERMAN MARK AT RATES BETWEEN AS 705 AND
718 PER DM 100. CURRENT RATE OF AS 715 PER DM 100 EXPECTED TO
STABLIZE AT AS 710 IN WEEKS AHEAD. OFFICIAL REASON FOR DE FACTO
REVALUATION OF SCHILLING IS "CURRENT MARKET SITUATION", MEANING
HEAVY DEMAND FOR AUSTRIAN CURRENCY BY GERMAN TOURISTS. REVALUATION
MOVE BELIEVED TO BE PROMPTED BY GOVERNMENT'S DESIRE TO FIGHT INFLATIO
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WITH "HARDER" SCHILLING. BUSINESS COMMUNITY REACTED NEGATIVELY TO
ANB'S ACTION BECAUSE HIGHER SCHILLING RATE WOULD HAVE ADVERSE EFFECT

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ON EXPORTS AND TOURISM. END SUMMARY.

2. SEASONAL HEAVY DEMAND FOR AUSTRIAN CURRENCY BY FOREIGN TOURISTS, MAINLY GERMANS, TRADITIONALLY CAUSES TEMPORARY REVALUATION OF SCHILLING VIS-A-VIS EUROPEAN HARD CURRENCIES TO WHICH SCHILLING IS AUTONOMOUSLY PEGGED. SO FAR THIS ANNUAL TREND COULD BE ACCOMMODATED BY LETTING SCHILLING FLOAT WITHIN 4.5 PERCENT TRADE BAND. DUE TO RECENT INFLUX OF \$100 MILLION, CAUSES BY REVALUATION RUMORS, AND HEAVY ANB INTERVENTION TO SUPPORT BELGIAN FRANC, AUSTRIAN SYSTEM OF INDICATORS AND TRADE BANDS NO LONGER SUFFICIENT TO PERMIT FURTHER UPVALUATION OF SCHILLING.

3. TO ESCAPE DILEMMA, ANB MANAGEMENT MET TO DISCUSS MODIFICATION OF CURRENT SYSTEM FOR DETERMINING SCHILLING RATE. DECISION WAS THAT RIGID ADHERENCE TO INDICATOR SYSTEM WILL BE ABANDONED. INSTEAD, SCHILLING WILL BE ALLOWED TO FLOAT FREELY BETWEEN AS 705 AND AS 718 FOR DM 100 DEPENDING ON DEMAND AND SUPPLY SITUATION.

4. ANB MOVE IS INTERPRETED AS PART OF GOVERNMENT'S ANTI-INFLATIONARY PROGRAM. HIGHER SCHILLING RATE EXPECTED TO HAVE DAMPENING EFFECT ON PRICES OF IMPORTS FROM GERMANY WHICH SUPPLIES 40 PERCENT OF TOTAL AUSTRIAN IMPORTS. EXPERTS BELIEVE THAT 1 PERCENT UPVALUATION OF SCHILLING WILL CAUSE DECLINE IN PRICE INDEX BY 0.3 PERCENTAGE POINTS.

5. AS BEFORE, "HARD SCHILLING" POLICY OF GOVERNMENT SEVERELY CRITICIZED BY INDUSTRY AND TOURISM SECTORS WHICH FEAR ADVERSE EFFECT ON EXPORTS AND FOREIGN TOURISM. BUCHANAN

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